



April 1, 2003

TO: Agency Secretaries
Department Directors

The 2003-04 Governor's Budget reduced employee compensation costs by \$855 million (\$470 million General Fund).

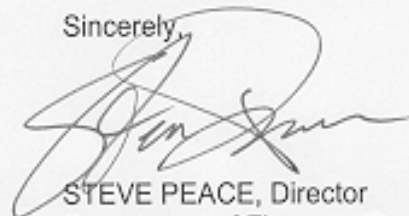
While the Administration is hopeful that the proposed reduction in employee compensation expenditures can be negotiated through the collective bargaining process, the State must be prepared to implement other alternatives should the proposed reduction not be realized in a timely manner.

At this time, departments are required to prepare a reduction plan and associated layoff plan that would reduce their personal services budgets by at least 10 percent in additional ongoing costs. The fund split between General Fund and other funds for departmental plans should mirror State Operations funding for the department.

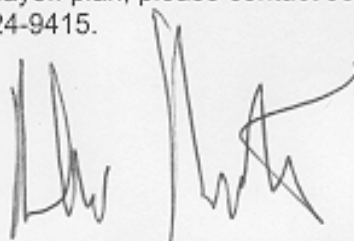
Departmental directors should be prepared to address and defend why they selected the particular positions and the expected programmatic impact if these positions are eliminated.

No later than April 22, 2003, each department must submit its reduction plan to the Department of Finance and its associated layoff plan to the Department of Personnel Administration. The Department of Finance will release a Budget Letter shortly providing instructions for the reduction plan. For instructions on how to prepare the layoff plan, please contact Jerri Judd of the Department of Personnel Administration at (916) 324-9415.

Sincerely,



STEVE PEACE, Director
Department of Finance



MARTY MORGENSTERN, Director
Department of Personnel Administration